

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT OCCUPATIONAL PENSION SCHEMES
(ADMINISTRATION, INVESTMENT, CHARGES AND
GOVERNANCE) AND PENSIONS DASHBOARDS
(AMENDMENT) REGULATIONS 2023

Wednesday 8 March 2023

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The Committee consisted of the following Members:

Chair: ESTHER McVEY

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| † Courts, Robert (<i>Witney</i>) (Con) | † Mumby-Croft, Holly (<i>Scunthorpe</i>) (Con) |
| † Duffield, Rosie (<i>Canterbury</i>) (Lab) | † Rodda, Matt (<i>Reading East</i>) (Lab) |
| † Edwards, Ruth (<i>Rushcliffe</i>) (Con) | Spellar, John (<i>Warley</i>) (Lab) |
| † Eustice, George (<i>Camborne and Redruth</i>) (Con) | † Trott, Laura (<i>Parliamentary Under-Secretary of State for Work and Pensions</i>) |
| † Jarvis, Dan (<i>Barnsley Central</i>) (Lab) | † Vara, Shailesh (<i>North West Cambridgeshire</i>) (Con) |
| † Kawczynski, Daniel (<i>Shrewsbury and Atcham</i>) (Con) | † Wild, James (<i>North West Norfolk</i>) (Con) |
| Lavery, Ian (<i>Wansbeck</i>) (Lab) | † Wright, Sir Jeremy (<i>Kenilworth and Southam</i>) (Con) |
| † Liddell-Grainger, Mr Ian (<i>Bridgwater and West Somerset</i>) (Con) | Jonathan Edwards, Aaron Kulakiewicz, <i>Committee Clerks</i> |
| † Linden, David (<i>Glasgow East</i>) (SNP) | |
| † Mishra, Navendu (<i>Stockport</i>) (Lab) | † attended the Committee |

Third Delegated Legislation Committee

Wednesday 8 March 2023

[ESTHER McVEY *in the Chair*]

Draft Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023

2.30 pm

The Parliamentary Under-Secretary of State for Work and Pensions (Laura Trott): I beg to move,

That the Committee has considered the draft Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023.

It is a pleasure to serve with you as the Chair, Ms McVey. The draft regulations, which were laid before the House on 30 January, continue the Government's commitment to ensure that millions of hard-working savers in occupational defined-contribution pension schemes get the best possible outcomes.

Subject to approval, the regulations will help DC pension schemes to make greater use of performance-based fees, which are payable to investment fund managers when they deliver high returns on their investments. The change will help to put schemes on a more even playing field with other institutional investors when accessing the same range of investment choices. The regulations also place new duties on the trustees of most occupational DC schemes to disclose additional information about their investments. These duties are designed to ensure that trustees of DC schemes reflect on their investment decisions as part of their ongoing fiduciary duty to create a diversified investment strategy that delivers for savers.

Good investments are central to a well run pension scheme, and decisions made by trustees have a significant impact on growing savers' pots. Adding performance-based fees to the list of charges that fall outside the regulatory charge cap is intended to make it easier for schemes to access new investment opportunities, such as the infrastructure needed for the transition to net zero. The Government believe that professionally managed investments in those assets, known as illiquids, are well suited to pension savers, given their long-term investment horizons and potential to provide members with higher net returns.

It is estimated that less than 10% of DC investments are in illiquid assets, and the pension charges survey 2020 evidenced that two thirds of DC schemes had no direct investment in illiquid assets in their default arrangements. Research shows that just 7% of UK pension assets are invested in illiquids, compared with an average of 19% among their European and North American counterparts. The Australian DC market invests, on average, somewhere in the region of 20% of assets in illiquid investments; that includes investment in major UK assets such as Heathrow airport and the King's Cross redevelopment project.

Feedback in recent consultations highlighted that the relationship between performance-based fees and the charge cap can be a barrier to private investment. Although the cap has successfully reduced costs, it has arguably led to more focus on costs rather than on the returns that different asset classes can provide. In January, I launched a consultation on proposals for a value for money framework, which aims to address that by shifting the focus from costs to ensuring that savers get value for money.

The Department for Work and Pensions has published statutory guidance to assist trustees with determining the criteria for specified performance-based fees to be considered outside the charge cap. The guidance is also clear that trustees should seek professional advice on their investments where performance-based fees are prevalent. To ensure transparency to members, any fees incurred are required to be disclosed and value to members is assessed in the scheme chair's annual statement.

In addition, the draft regulations correct a drafting error at cohort 1(b) of the staging profile contained in part 1 of schedule 2 to the Pensions Dashboards Regulations 2022. The error relates to the staging deadline for "master trust schemes that provide money purchase benefits only". Although we are not aware of any schemes being affected by the minor error, it is none the less appropriate to amend the 2022 regulations to resolve the issue as soon as practically possible.

2.34 pm

Matt Rodda (Reading East) (Lab): It is a pleasure to serve under your chairship, Ms McVey. I welcome the Minister to her post and thank her for her recent work on auto-enrolment.

The dashboard is clearly an important aspect of pensions policy, and we support it. We understand why the Government are proposing these changes, but I have a series of questions about the specifics of the charge cap and related matters. I will also say a brief word in support of illiquid investments, which are hugely beneficial to the country in terms of the transition to net zero in the future. I visited a solar farm with the former pensions Minister, the hon. Member for Hexham (Guy Opperman), and I put on the record my thanks to him for the cross-party way in which he worked with me on the issue.

I support greater illiquid investment, but to what extent have the Minister and her colleagues considered the interests of savers in this change? Clearly, higher charges have an impact on pension savers. I am also interested in what the Government are doing in other aspects of pensions policy to encourage greater illiquid investments, whether in green energy infrastructure or other matters that come under the same heading. There may well be a range of other policy levers that could be used to encourage this type of investment.

In addition, I have concerns about the progress of the dashboard following consultation with the pensions industry and previous updates from the Minister about this important area of policy. I am thinking in particular about the pace of the roll-out and how the Government have had to increase their involvement in the direct management of the scheme. There is a long history of Government IT projects being over-ambitious and having difficulty delivering. I hope that the Minister can reassure the Committee about this, because the dashboard is a

hugely important step forward for the country. There have been delays, and there may well be further delays. It is important that the Government are honest with the pensions industry and pension savers. People would clearly like to be able to access further information about their pensions in one place; there is a huge advantage in that. However, there are significant challenges to rolling that out, as with many other complex IT programmes. The industry itself is concerned about this series of delays from the Government.

I would like to raise a specific technical point that indicates the challenge. One pensions organisation raised with me concerns about pension savers not being able to use their national insurance number as an identifier. One would think that that would be a practical way of accessing information and exactly the sort of security measure that such an IT programme would warrant, yet the organisation tells me that, for some reason, it is no longer possible. That worries me. An individual's national insurance number could be an important part of accessing personal information and a safeguard against anybody with an untoward intent.

I look forward to an update from the Minister on those important matters. We support the roll-out of both the dashboard and the other measures to encourage illiquid investment. I hope that she will be able to reassure the Committee, the pensions industry and savers about these important points.

2.38 pm

David Linden (Glasgow East) (SNP): It is a great pleasure to serve under your chairmanship, Ms McVey. I thank the Minister, as always, for maintaining her constructive relationship with Opposition parties.

I very much associate myself with the remarks the hon. Member for Reading East (Matt Rodda) made about broad support for illiquid assets. Given that this statutory instrument in part rectifies previous drafting errors, we need to reflect a little on how we are channelling legislation through the House, particularly in relation to the Retained EU Law (Revocation and Reform) Bill, although that is perhaps a political point.

Like the right hon. Member for East Ham (Sir Stephen Timms) at Work and Pensions questions on Monday, I want to press the Minister ever so slightly on the roll-out of the pensions dashboard. I absolutely understand the importance of getting things right first time—perhaps this SI is a good example—so I do not want to be on her case about the roll-out, which my party certainly supports, but we have concerns about commercial influence in the dashboard. I would certainly prefer to see the Money and Pensions Service, a public body, get the first year under its belt before that commercial influence starts. The principle of people having transparency, which is fundamentally what this SI is about, is, of course, hugely important.

I do not want to be on the Minister's case about when the dashboard will be rolled out, but I would like a little more clarity about where we might be. On Monday, she was reluctant to say much to the right hon. Member for East Ham, but could she give us a nod and a wink about whether we will get more information before, say, the summer recess? That would be helpful. At this point, I will conclude my comments and wait to hear from the Minister, whom I greatly respect.

2.39 pm

Laura Trott: I am grateful for the cross-party support for the auto-enrolment work we are taking forward. I look forward to participating in a similar Committee, with a similar cast list, next week.

In the interests of savers, we have ensured that fees are payable only where there is a return. The exact schedule of the return and its rates will be a discussion between trustees, scheme members and investment managers. We brought that into the regulations to ensure that the interests of savers are at the heart of everything we are trying to do.

Green energy infrastructure is exactly what we are trying to promote as part of the illiquids reform. To be clear, I do not think that will be the be-all and end-all of trying to get more investment in illiquids, but it will take us a large degree further forwards. Again, I am grateful for the cross-party support for moving in this direction. Not only is it important for the UK economy as a whole but, from my perspective most important, it is in the interests of pension savers.

The dashboard is a complex project, which had a long history before I came into this post. When I got the job, I asked for a look into how it was going and whether we thought we could meet the deadlines that were set out. I have some concerns about what I saw, and that is why a reset programme is in place at the moment.

Members were all absolutely right to say that we need to get this correct the first time round. I have committed to come back to the House to put new deadlines in place, and I would like to be able to do that before the summer recess—that is certainly what I am working towards. I will be able to confirm that nearer the time. It is important that we get this right, and get it right first time, so that we do not have to do this again. What the dashboard will do is incredibly important and will make a massive difference. We know that lots of people have lost their pots. It is vital that we increase adequacy for pension savers, and the regulations are a vital part of that.

I am pushing as hard as I can to ensure we keep to the deadlines as much as possible. We can move around the upload deadline, but I would like to keep as close as possible to when savers should be able to access this. I will come back to the House before summer recess to hopefully give more detail on that.

Matt Rodda: I appreciate the Minister's candour. It is indeed vital that we get this right. It is an important piece of pensions infrastructure for the future and hugely important to both savers and the pensions industry. Will she be able to update the House on the Government's spending on the project as well? There are also concerns that the Government may have overspent on some aspects of the project, and the wider project management and governance might need to be tweaked and improved.

Laura Trott: Yes, absolutely. When I come back with the regulations, I can provide an update on the spending. I reassure the hon. Gentleman that part of what the reset is doing is looking at the expenditure to ensure that it is in hand. I will have more to say about that when we come back.

The shadow Minister mentioned NI numbers, and that is one of the things we need to look at again. It is really important. I have had representations from industry

[*Laura Trott*]

about this, and I had a meeting on it this week. It should potentially be incorporated, and that is part of what we are looking at as part of the reset programme.

George Eustice (Camborne and Redruth) (Con): I note from the explanatory memorandum that there was another set of regulations in 2021—the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021—which introduced some initial easements. Why do the Government think those were insufficient? It is not that long ago, so it seems quite soon to make changes again. Was there an oversight in not making the full change last time, or is it the case that we now have enough evidence to know that those regulations did not work?

Laura Trott: We are definitely taking this a step further now. In my time as pensions Minister, I have tried to really focus on the value for money, rather than the charges, and that is a shift. We are a step further into our automatic enrolment journey. We now see that we have the coverage, which is really positive, but we need to improve adequacy. In my time as pensions Minister, I will really focus on that and getting returns to savers so they can build up their pot. It can make a massive difference to how effective someone's ultimate retirement

pot is in giving them the retirement they want, and this is another step in that direction. It has been a journey, and this is additional to what we have done previously.

Matt Rodda: I think the right hon. Member for Camborne and Redruth makes an excellent point in asking the Minister about the number of revisions of the programme. Has the Minister discussed with the Cabinet Office and other Departments across Whitehall how the programme benchmarks against what is known about good practice in managing complex IT programmes?

Laura Trott: The Cabinet Office has been involved in this. Every big project goes through a major project review process, so the Cabinet Office has been involved.

Automatic enrolment has been a huge success. It has led to nearly 11 million people, as of January 2023, joining a pension scheme, many for the first time. However, being enrolled in a pension scheme is not enough; pension schemes must continue to ensure they are delivering the maximum return for their savers, and illiquid investments will be a huge part of that. I commend the regulations to the Committee.

Question put and agreed to.

2.46 pm

Committee rose.

